

THE ELABORATION AND IMPLEMENTATION OF A STRATEGIC MANAGEMENT MODEL ON THE ROMANIAN MARKET

Cristian Costin NEDELCU
EM Lyon Business School

Abstract. *A brilliant business idea does not have the strength to sustain on a long term the development of a small company. This paper offers a model of strategic management which, if adapted, can serve as a guideline for the proper development of a small sized trading company on the business to business Romanian market. The key elements which can lead companies to growth and constant competitive advantage are encompassed by strategic management. Difficulties, changes in the business environment and even the lack of resources can be overcome with the aid of strategic planning. A strategy map, constantly reviewed, constitutes the premises for a healthy life for any organization.*

Key words: Business to business market, Change management, Strategic management, Sustainable competitive advantage, Trade.

1. Introduction

We live in a dynamic business environment characterized by change. New companies appear each day, but only a few manage to grow and resist on the market. Romania is an emerging market where the funds made available due to the accession in the European Union have created the biggest birth rate of new companies throughout Europe. In Romania, newly born enterprises, as a proportion of all active enterprises, represent 18.3 % (Eurostat). But only about half of all those enterprises born in 2000 survived to 2005. (Eurostat)

Many of these companies are unsuccessful due to the lack of managerial knowledge compulsory in any business environment. A good business idea must be supported by the managerial activities which prove to be essential in the proper development of any company. It is obvious that companies cease to exist because they refuse to take into consideration important business concepts.

Strategic management is a theme that comprises all the elements from the life of a company. By treating a subject like strategic management, one can observe, analyze and act in different domains like the organization of the company, the management of time, the human resources or the marketing and financial fields. This paper addresses the evolution of a trading company starting from a turnover of around 10000 EUR generated by only 2 employees and ending with a turnover of over 1 million EUR and 9 current employees. At the first sight the company seems to be on a successful road. The purpose of this project is to identify the problems of the company and offer solutions for the further development. The situation that the company confronts with can be observed in most of the small and medium companies where there is a lack of management knowledge. This paper can represent the

foundation for any similar analyze on a small company from the Romanian business environment. The project is structured in 2 main parts. The first part is a theoretical one and it represents the guideline for the evaluation of a management strategic model. The second part personalizes the theory and refers to the implementation of a management strategic model at Alpha SRL. As methodology to support this conclusion an interview with the General Manager of Alpha SRL was taken and his answers are analyzed in connection with the prior identified issues.

This paper has the purpose to analyze the concept of strategic management and to offer elementary information regarding the process it self and its benefits. Furthermore a case study is presented and theory is applied on a small trading company. The application of this fundamental concept should have the objective to create stability inside any organization, to diminish the level of risk which companies face and to offer a proper guidance for an exponential evolution during the next years. This analyze should also offer a solution for achieving competitive advantage on the market and greater levels of profitability. A similar course of action can be successfully adopted by most of the small-sized companies from our country.

2. Literature Review

2.1. Strategic Management

Strategic Management is a tool which helps managers to pursue the best course of action. „Organizations don't stand still; they are dynamic entities constantly evolving. Unlike buildings, strategies do not get finished” (Mintzberg, 2005, p. 32)

Henry Mintzberg has identified the essential 2 characteristics of *strategy*: the fact that it is developed consciously and purposely. He considers strategy to be a guideline which can help in the process of dealing with a certain situation. More than this, Strategy represents in his opinion consistency in behavior, whether or not intended. One objective of strategy is to achieve survival and a future high performance. Success results from a good match between the capabilities of the enterprise and the opportunities to serve the needs of customers better than competitors. „One aspect of strategy is to improve the fit between capabilities and the opportunities available and thereby to make the business more successful.” (Mintzberg, Ahlstrand, et al., 2005, p. 44)

The strategic management concept was developed in the last decades, as a response to an increase in the dynamic of change which rules the business environment. The appearance of a multitude of companies with the same object of activity, as an effect of globalization, has intensified the competition among companies. The aim of this instrument is to project courses of actions which offer the possibility of obtaining competitive advantages.

Strategic Management is defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives.

In order to obtain a viable strategic management model, the managers must pursue a logical sequence of activities. These start with the analysis of the competitive environment and identification of the mission of the company. Based on this analysis the strategic and financial objectives are mentioned, strategic options are established and resources are allocated accordingly. The next step is the creation of a timeline which should accommodate the model. Further in the process, methods of achieving competitive advantages must be identified and partial and global strategies must be nominated. The last step and maybe one of the most important is the assessment of the performances obtained due to the application of the strategy and the implementation of the necessary corrections to the model. (David, 2007)

The concept of value chain was introduced by Michael Porter. Value should be analyzed by the definition one can find in any Business Valuation Manual as the price that a customer is willing to pay for an offering. There are many elements which combined create value for a company and which are taken into consideration in a valuation process. The nature of the business and history of the enterprise, the economic outlook in general and condition and outlook of the specific industry in particular, the financial condition of the company its earning capacity and the intangible assets that it owns are just a few of these elements. (Hitchner and Mard, 2003)

2.2. Value Chain

A value chain analysis divides the enterprise into a chain of activities. Each element or link in the value chain is responsible for a part of the total value which reaches the customer. An important aspect of strategy is the ability to identify which are the parts of the value chain from which the majority of value comes and redirect most of the resources towards those parts and in the same time recognize the parts which contribute only with a low level of value to the entire business and improve or outsource them. The value which is perceived by the customers has origins in three basic sources: „activities that differentiate the product, activities that lower the cost and activities that meet the customer's need quickly” (Pearce and Robinson, 2007, p. 158)

The key to success is to offer a larger amount of value by having smaller costs tied to the activities which create value. If a company can ensure lower total costs across its overall value chain than the ones of the competitors than it creates a competitive advantage over its competition.

There are two types of value creating activities: primary and support. The *primary activities* contribute to the creation of the product and to its sale and service after sale: inbound logistics, operations, outbound logistics, marketing and sales and service. The *support activities* – procurement, technology development, human

resource management and general administration – either add values by themselves or through their relationship with *primary activities or other support activities*. (Dess, Lumpkin, Eisner, 2007)

2.3. The Resource Based View of The Firm

RBV is a method of analyzing and identifying firms strategic advantages based on examining its distinct combination of assets, skills, capabilities, and intangibles as an organization. This method integrates both internal and external perspectives. There are three types of resources that firms possess: tangible, intangible and organizational capabilities. (Pearce and Robinson, 2007)

Tangible resources have a physical form such as machinery, buildings or land and are easy to identify. They are present in the balance sheet and their value can be precisely determined.

While **intangible** assets don't have the obvious physical value of a factory or equipment, they can prove very valuable for a firm and can be critical to its long-term success or failure. While core tangible resources can be easily imitated, the intangible ones are very difficult to change. The value creation process is enhanced by invisible resources like: brand, image, reputation, corporate culture, Research and Development, management skills, intellectual property, databases or human capital. In the article: „Typology and strategic analysis of intangible resources. A resource based approach” the authors point out 4 main categories of intangible resources: Human Capital, Organizational Capital, Technological and Relational Capital. (Fernandez, Montes, et al., 2000, pp. 81-92)

Organizational capabilities refer to the “the capacity of an organization to deploy tangible and intangible resources over time and generally in combination and to leverage those capabilities to bring about a desired end.” (Dess, Lumpkin, Eisner, 2007)

In the life of the company the employees develop skills or competencies which allow them to perform their tasks quick and effectively. Examples of capabilities are outstanding customer service, excellent product development capabilities, super innovation process and flexibility in manufacturing process. The simple existence of resources is not a basis for sustainable competitive advantage. The resources must combine 4 important characteristics, they must be valuable, rare, should have few substitutes and hard to imitate.

2.4. External Environment

Business markets have several characteristics that contrast with those of consumer buyers. The business markets are fewer and larger. A strong relationship between the supplier and the customer is created. Because of the smaller number of customers and along with it the greater importance and power which they exercise, the

suppliers must serve their customers in the best possible way and must satisfy efficiently the needs of the market. Retention of each client is significant, and losing a client can be equal to bankruptcy. The clients enjoy a bigger purchasing power which permits them to buy not only huge quantities but also a wide range of products. Business goods are often purchased by trained purchasing agents, who must follow strict policies, constraints and requirements coming from their organizations. Many of the buying instruments like-requests for quotations, proposals, negotiations, purchase contracts are typically not found in the consumer markets. The demand for certain goods is determined by the activities of the main buyers. By keeping under strict observance the buying behavior of the customer and its main activities the suppliers can predict the future demand from the market. (Kotler, 2006)

2.6. The mission and the strategic objectives

The starting point in elaborating the strategy must be the proper identification of the *mission* of the company. The mission allows people to understand the reason for the existence of the company. It identifies the main object of activity of the company, the type of clients which are targeted along with other objectives which need to be fulfilled. The organization is driven by its vision and mission with respect to the business environment. Mission statements are not designed to express concrete ends, but rather to provide motivation, general direction, an image, a tone, and a philosophy to guide the company.

In conclusion, the mission is a complex concept, which situates it self in the center of the decision making process, and which can influence the decisions of the company by the way in which different partners-investors, buyers, business people or employees understand and accept this concept. It transmits to the employees the organizations philosophy which must guide them in taking the best decisions considering the desired path of the organization. (Popa, 2004, p. 188)

„**Objectives** should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organization units.” (David, 2007, p. 168)

Each objective should be associated with a timeline. They represent the targets of the company, and for a proper use they must be associated with a timeline and they must be clearly presented. The benefits which they can offer are essential: they create a purpose, provide direction, allow synergy, help the analysis process, establish priorities, simplify the decision making process, reduce uncertainty, minimize conflicts, define the parameters of performance, help in the process of evaluating the results of the company and aid in both the allocation of resources and the design of jobs.

2.7. SWOT Analysis and Strategic Issue Management

Strategy formulation begins with the analysis of the situation, the endeavor of finding a strategic fit between external opportunities and internal strengths while avoiding external threats and dealing with internal weaknesses. (Thompson and Martin, p. 149)

SWOT analysis should not only result in the identification of a corporation's distinctive competencies - the particular capabilities and resources that a firm possesses and the superior way in which they are used, but also in the identification of opportunities that the firm is not currently able to take advantage of due to a lack of appropriate resources. Similarly the resources and culture will determine the extent to which any potential threat becomes a real threat. (Wheelen and Hunger, p. 138).

Igor Ansoff, identifies and defines a *strategic issue* as a possible forthcoming development, having its origins either in the internal or external environment, which is likely to influence the ability of the enterprise to meet its objectives. Issues can be both positive and negative. It can either represent an opportunity or an internal strength which creates the premises for being exploited into an advantage or it can represent a threat or an internal weakness, which left untreated it can either represent an obstacle in the future activity of the company or even worse it can impose a real danger upon the existence of the company. There is also the possibility to convert threats into opportunities by using an aggressive and entrepreneurial management system. When assessing strategic issues, early identification and fast response to trends and events which can impact the firm, is of vital importance. (Ansoff, 1980)

Strategic Issues Management (SIM) systems are one set of organizational procedures, routines, personnel and processes devoted to perceiving, analyzing, and responding to strategic issues. They enhance an organization's capacity to adapt and to learn. Strategic issues can alter the organization's performance if left unnoticed and unaddressed. (Heugens, 1996)

3. Presentation of Alpha SRL

Alpha SRL functions under the form of a limited liability company, according to the present laws, being registered to the Chamber of Commerce and Industry of Romania. The company was founded in 2004, and it employs now 9 people.

The main object of activity is constituted by „commerce with spare parts for the railway and for the automotive industry”. The main clients of the company are National Railway Company and other Public Transportation Companies. The main competitors of Alpha company are other trading companies like Company Y or Company Z. Each of these companies is a traditional participant at the majority of the tenders organized by the National Railway Company. The main contracts which are concluded by the company are commercial contracts having as object the delivery of spare parts for trains and other vehicles. Most of them are a result of the organization

of public tenders. The company keeps under observance the activity of the possible clients, and the announcements regarding the organization of new tenders. Based on these announcements it tries to identify potential suppliers. Starting from the price offer received from the suppliers, the company adds a profit rate and makes an offer towards the final client. If this offer is the best one that the client received, the client submits a direct order or signs a contract with the company. The main purpose of the activity of the company is to obtain profit from intermediation the transfer of goods from the supplier to the client. Alpha SRL is constantly participating at all the types of tenders starting from: spare parts for trains, light trains and buses and ending with copper and bronze wires for the electrical networks, asphalt and many others.

4.1. The importance of strategic management

Alpha SRL developed in the last 3 years an overwhelming level of growth. The number of projects in which the company is involved has increased. The number of clients and the value of the goods sold towards them are growing from year to year. The main elements which led to this amazing evolution were the employees. Their hard work combined with the identification of some good opportunities on the market has created the premises for this development. During the 4 years of existence of the company terms like: management system, decision making model, strategic management, marketing, human resource management or research and development were present only in a shadowy informal form. The impressive achievements were a result of hard work, luck and inspiration in certain crucial moments. The purpose of this study is not to criticize the former management of the company but to create awareness of the need to implement management theories inside the company. When analyzing the balance sheet and the profit and loss account, the first conclusion one can draw is that the company is performing its activity in a great way and with a high level of efficiency. One can assume that continuous growth is the normal next step in the evolution in the company, and that the current management system is an optimal one, which probably needs little improvement in order to bring the same, or better, results in the future. Unfortunately this image is not reflecting the reality. By making a more attentive analyze, the issues start to show up. Among the crucial problems one can identify: the big number of projects which bring a very small profit margin or even a loss, the presence of a client which concentrates more than 75 % of the turnover, the bad use of time management, the lack of interest regarding the presence of the brand on the market, the very low level of the retention rate, the inferior level of organization of the company activities. The main objective of this paper is to identify and propose solutions for the current problems and in the same time draw a strategy regarding the activity of the company in the next three years. The secondary objective is to create the premises for sustaining the current growth and prevent the decline of the company.

4.2. Value Chain at Alpha SRL

The process of value creation is an essential one inside any company. The chain of activities which are responsible for adding value to the products must be clearly identified and analyzed. The key to success is to create large amounts of value with small cost attributed to the creation itself.

The analysis should begin with the primary activities which design the value chain: Inbound, Outbound, Operational, Marketing and Sales and Service activities. Considering the *commercial character of the company* the main emphasis is made on Inbound, Outbound and Marketing and Sales activities. In this moment the company encounters big problems with the administration of products.

Regarding the *inbound and outbound* activities each project of the company which is materialized in a contract raises some issues regarding the deliveries. The client imposes through the contract partial deliveries according to a well defined schedule. Each supplier has different possibilities of production. The person in charge of the contract must combine these 2 elements, take into consideration the financial possibility of the company to purchase the goods, and plan the deliveries such that the supplier can receive its money on time and the client can receive the goods on time. Many times errors appear in this process, and goods are delivered with delay or are acquisitioned too early. A computerized system should be implemented which should schedule from the beginning all the steps of the delivery. Also, considering that the number of goods which are held on stock is constantly increasing, a very well developed system must be designed in order to avoid any errors regarding the handle of the products. In any moment the computer system must present a clear situation of any product present in the warehouse. The warehouse it self must be organized. Shelves must be created and the goods must be arranged according to each project. In this way the manipulation of goods will be realized with more ease and mistakes can be avoided. The transportation must also be better organized. First of all the company must find serious partners, which fulfill the service in time and charge a low price. The organization of the transports must be strictly correlated with deliveries such that time is not wasted.

Regarding the *marketing and sales activities*, the main issue which has to be solved is the one of the present image of the company. Brand awareness must be created in the eyes of the customers. In the same time both the suppliers and the clients of the company must perceive it like a professional, trustworthy partner. Secondly, a better use of resources must be implemented, by focusing the efforts of the company only on those contracts which really are profitable. Directing all efforts towards complex projects, where little information regarding the products are offered, or where there is a very big number of products, and the profits are very small will lead to waste of time.

The support activities inside a *trading company* are at least as important as the primary activities. *Procurement* is essential for the existence of the company. Most resources must be redirected on this activity. As long as the company manages to

identify suppliers which offer high quality products at competitive prices, it will survive on the market. The *Technical Development* activity is also important. First of all the informational means of administrating the business and help the decision making process must be delivered inside the company. Secondly, it is important to keep in touch with the evolution of technology. The use of the internet in finding new clients and suppliers, or the use of faster and cheaper means of communication can be vital. The *Human Resources* activity will build the foundation of the future development of the company. This subject will be treated in detail in the next chapters. The last but not the least is the *General Administration* is responsible for assisting all the other activities.

4.3. Resource Based View of the Firm

The logical and equilibrated use of all the resources of the company can create a sustainable competitive advantage. From the point of view of the **tangible resources** the conclusion can be drawn that they are adequate for the current size of the company. New computers, scanners, printing machines, Xeroxes, fax machines are at the disposal of the employees. All the office furniture is new, the office is equipped with an air conditioning system and the stationery equipment is present on each desk. The offices are built in an American style, without any walls in order to support communication between the employees.

The *intangible resources* which have the ability of bringing more value to the company and are harder to imitate. By following a strategy regarding the human resource department the *human capital* will become without any doubts a powerful source of value. The *organizational capital* will benefit from the reorganization of the company and from the use of databases. A healthy organizational culture will prove to be essential in increasing the value of the firm. *Technological capital* evolves in a close relationship with the Research and Development activity. The software that the company must buy in order to address all the issues regarding the administration of products, inventories, delivery schedules, the collection, sorting and using past information from the activity of the company. The *relational capital* refers to the business relationships with the clients and suppliers. As long as long term relationships, based on loyalty are created, this type of resource is enhanced. In this moment the company benefits from good relations with some of the clients and some of the suppliers. This trend must be continued and expanded in the future to most of the company's partners. Other intangible resources that the company posses and must strive to obtain in the future, are the exclusivity agreements with foreign producers or the ISO 9001 that the company obtained in 2007 or the certificates obtained from the Railway Authority „AFER” or the Safety of the Road Authority „RAR”. All of these are priceless and have as an effect the elimination of competition and certain success on certain niches of the market.

Informational resources are essential in this line of business. The archive should be very well organized. The company should benefit from its own library which must contain technical documents of the products which are sold or were intended to be sold. Also the company should gather technical books or magazines: Railway Insider, Monthly Magazine published by the Union of Transporters. The company should have catalogs from different producers and catalogs from International Fairs. All these publications have the purpose of keeping the company up to date with the activity of its main clients or customers and in the same time they represent potential sources of suppliers. The strategic organization of the company has as one of the main aims a better allocation of the existent resources and the creation of additional ones which together must aid the future development of the company.

4.4. External environment

Alpha SRL participates at tenders organized by the National Railway Company and by Public Transportation Companies for spare parts and rolling stock for trains, buses and tramways. The activity of commerce with spare parts for public transport vehicles is approaching a phase of *maturity*. There are a great number of competitors on the market. Competition for market share becomes more intense as firms in the industry are forced to achieve sales growth at one another's expense. New products and applications are harder to appear. Profitability falls as a result of pressure to lower prices and the increased cost of holding or building market share. In the same time the industry presents some *niches*, some areas which develop a growth stage where the demand for new products is high but also the threat of new entrants is present. This trading activity is derived from the demand for spare parts coming from all the companies which assure public transport by road or by rail inside Romania. At its core it is a *fragmented* industry with numerous competitors, but none of which having control or significant share of the overall industry sales.

4.5. Porter analysis

4.5.1. Rivalry among competitors

Considering all the tenders at which the company has participated in the last 2 years, a classification of the types of tenders can be realized according to the number of competitors.

There are tenders where there is always a big number of competitors. Usually 5 or 6 specialized companies participate. Each year the profits of the winners are constantly decreasing. The competition is very tough and the only way to be able to win is to add a small margin. Not only there are many trading Romanian companies which participate at tenders but there are also many different producers for each type of products. More than this, the desire to win has driven many of the competitors to

redirect their attention from original products to aftermarket products, mainly for those produced in Turkey. This type of tender presents interest for most of the companies because there are important amounts of money involved. The only viable strategy here is to try to reach directly the original producers, the factories, in order to receive smaller price offers. Considering the different types of spare parts, many suppliers must be approach and a mix must be made among the smallest price offers. Furthermore optimal transport costs must be obtained and low profit margins must be incurred. These activities must be supported by the Marketing and Research and Development department.

The second category is comprised out of tenders where there are a small number of competitors, maximum 2 or 3. There are only a few companies which get involved in projects outside Bucharest. Beside the low number of competitors composed out of Romanian trading companies, there is also a limited number of producers. For these cases it is indicated to try to obtain exclusivity from the producer and in this way eliminate indirectly the other competitors. By participating at tenders from this category the company can obtain bigger profit margins.

4.5.2. Bargaining power of Clients

The number of clients is reduced. Actually from the point of view of Alpha SRL in this moment there is one major client, comprising around 80% of the turnover the National Railway Company, and a few other small ones.

The law obliges the companies to organize tenders in order to increase transparency and competition. All these tenders impose clear conditions regarding delivery, payments or other elements. For example the Public Transport Company from Bucharest makes its payments at 90 days after the delivery according to the delivery graphic. More than this the contracts are usually for one year and the delivery graphic splits the total quantity in 12 equal monthly deliveries. The possibility of delivering goods in advance is eliminated by this condition. These 2 conditions constitute important impediments in the activity of Alpha SRL. For example, considering the fact that most of the suppliers want to be paid in advance, this means that the company blocks its money for a long period of time. More than this, by being obliged to deliver according to a clear delivery graph, the company incurs bigger costs for transport. The power of the clients is also emphasized by the increased number of documents which they require from the participants at the tenders. They require ISO 9001, ISO 16949 or ISO 14 001 from the producers, ISO 9001 from the participant at the company. They also require AFER or RAR certificates, letter of recommendations from other users of the products which represent the object of the tenders. For some of the procedures they also require for original products.

4.5.3. Bargaining power of suppliers

Most of the time, suppliers require payment in advance in the moment of the order, or payment on delivery. Also they condition discounts based on the acquisition of the whole quantities in one batch. The period of one year for the contracts can be an additional problem. Due to the constantly increasing cost of oil and of raw materials, the costs of the supplier also increase. Usually the suppliers are reticent in submitting price offer with a validity of more than 3 to 6 months. Associating these conditions with the conditions imposed by the clients, the impediments for the trading companies are obvious.

As an example, the products which have a high composition of copper have a fluctuating price. The price of the copper at the London Metal Exchange can suffer in short period of times great fluctuations. There were situations when the price of copper increased or decreased in 2 weeks with more than 20 %. Some suppliers which sell these type of products take advantage of these fluctuations and not only they completely avoid risk by giving price offers valid for 2 days, but also their change in price from one month to the other is different from the fluctuation in price of the copper.

Many of the partners of **Alpha SRL** are trading companies from Hungary, Germany, The Czech Republic or Turkey. The supplier plays an important role also because it can delay the delivery of some products and in this way it can create problems for the trading company which does not respect the delivery terms from the contract with the final client.

4.5.4. New entrants

There are many barriers which make harder the entrance of new competitors on the market. For most of the tenders the clients require for a similar experience. They require that the participant has delivered in the past similar products of a total value at least equal with the value of the products from the present tender. Also the big number of documents required by the clients and the harsh conditions imposed both by the clients and the suppliers represent entry barriers. Furthermore there still are many situations, encountered at the tenders organized by the Public Transportation Companies outside Bucharest, when the client does not offer in the „duty book” any information regarding the product beside its name. There are no producer codes, no technical characteristics of the product or no drawings. This makes the identification of the products almost impossible.

Of course there are also situations when if a powerful producer can be found which has the resources to meet all the requirements of the clients and also is eager to enter the Romanian market and offers goods trading conditions, winning the tender can be easily achieved. This is an important situation on which the X Technology should focus on.

4.5.5. Substitutes power

Generally the products must respect all the technical conditions imposed by the clients. Considering the fact that in almost all the tenders the winner is declared the participant which respects the technical conditions and presents the smallest price, a substitute product with new features or of higher quality has no chance in substituting a product with a smaller price. The clients want to keep their expenses low, they do not want to be obliged to make changes to the equipments due to the purchase of products with different characteristics than the old ones.

More than this there are certain acquisition procedures, where the client wants to receive original products, which made the object of the initial assembly of the vehicles. In these cases under no circumstances a substitute product can be introduced on the market.

4.6. The Mission and the Strategic Objectives at Alpha SRL

„Alpha SRL proposes to put its services to the disposal of the Public Transportation Companies from the Romanian cities and to the Railway companies. Our desire is to offer high quality spare parts at a competitive price. Our company will also sustain the modernization process of the vehicles having as destination public transport. The company will benefit from a modernized and flexible organization and will pursue the effective and efficient use of its material, human and financial resources. The company will represent a trustworthy and reliable partner for the foreign companies which intend to supply the Romanian market with spare parts for vehicles.

We will put at the disposal of our clients the expertise of well trained professionals able to offer efficient and realistic solutions.”

The *strategic objectives* are reflecting the reality, are achievable and their implementation depends on the success of the strategic planning process. Ten objectives were settled, within certain timelines, but these can change from year to year according to the opportunities and threats which the company will encounter. The ten objectives are:

1. Achieving a net profit margin of 20% for 2008, 25% for 2009, 28% for 2010;
2. Increasing the turnover of the company with 15% each year;
3. Increased the market share by increasing the number of signed contracts and also focusing on contracts with bigger values;
4. Attracting new customers especially Public Transportation Companies from Oradea, Arad, Timisoara and Metrorex. Concluding business contracts, with a total minimum value of 100 000 EUR, with at least 2 new clients each year;
5. Reorganizing the organizational structure and creating 3 new departments: Marketing and Research and Development, Finance Department and Quality and HR department;

6. Increasing the number of employees with 3 persons in 2008, 2 persons in 2009 and 1 person in 2010;
7. Consolidating the relationships with the current foreign suppliers and finding new suppliers. Obtaining exclusivity on the Romanian market;
8. Introducing new products on the market. Each year sell at least 2 products which we never sold before on the Romanian Market, with a total minimum value of 100 000 EUR;
9. Increasing the productivity of the employees, by introducing training programs by redefining the job descriptions and introducing performance appraisals systems;
10. Increase the productivity of the employees by using evolved management systems and by improving the management of time;

4.7. Strategic Issue Management

The strategy covers a 3 year period, starting from 01.08.2008. From 6 to 6 months, intermediary terms for the evaluation of the partial strategies will be set up. The appearance of some new elements which were not considered in the actual moment or the chaotic evolution of some economical, social or political elements from the business environment of the company can result in a redesign of the strategies and lead to a reestablishing of the terms. The strategic issue management model has the purpose of minimizing the effects of unpredicted environmental elements.

The objectives of the company can be influenced by different factors which can suddenly appear either in the external or internal environment of the company. These factors can have both positive and negative influence on the activity of the company. The company must identify them in time and must respond fast to their influence. The strategic management issue process proposes a way of manipulating the threats and opportunities which arise within the company. It is learning tool which involves continuous surveillance and periodical review of the key strategic issues. The most adequate strategic options which the company should adopt in order to reach in time the proposed objectives are cost leadership strategy, organizational restructuring, the introduction of a management information system and the introduction of other elements of the management science.

4.8. Cost leadership strategy

The Company must be in a constant search for new suppliers. Strong relationships must be built with them in order to facilitate discounts and other types of advantages. Also strong relationships must be created with transport companies in order to obtain low price transport quotations. The profits which the company incurs must be small for the tenders where the competition is though. The main purpose is to increase market share and in the same time eliminate competitors from these projects.

The most important department regarding this strategy is the Research and Development. It must constantly analysis all the information the company detains. First of all it should identify the tenders where the competition is decreased or where there is no competition. For these tenders the company will be able to obtain higher profits. For the other tenders, where the number of competitors is higher new suppliers must be found which are able of offering a product which fulfill all the requirements of the clients at a competitive price.

The pricing strategy is very important and it should have as aim the penetration of the market. On the market there still are some products which are purchased from foreign companies with a low price and are sold to the Romanian Public Transportation companies with high profit margins. This is possible due to the fact that there is a reduced number of producers for this type of products and these producers have not established yet a business relationship in Romania.

Another aspect is that most of the competitors from the Romanian market are focused on Bucharest. Here there are the most vehicles and the biggest demand for spare parts. Due to this reason the competition is more intense and the profits are smaller for most of the products. The tenders from other cities are not treated with the same attention. There is a smaller number of competitors, there are less requirements coming from the clients regarding the quality of the products. This opportunity must be approached by the company. A great advantage is that there are many companies which do not keep track of the evolution of the market. Some of them only focus on what they do best, and don't try to sell other products.

Another strategy option refers to *the organizational restructuring* of the organization by the introduction of 3 new departments and by the redesigning the job descriptions of most of the employees.

A third strategy is put into practice by *introducing a new management information system* which must assure a better reaction to the day to day operations. The employees must design databases which should contain pertinent information regarding the past activity of the company. These databases should offer quick access to important information and facilitate the analysis of future projects which the company can approach. Creating, for each tender at which the company participates a database which can be updated each year. The actual administration program must clearly identify all the products which the company is trading and offer a clear situation of the stocks. Introducing charts for each project, where relevant information should appear and along with it details regarding the operating expenses included in each project. In this way the employees can better keep track of evolution of the contracts. Reorganize the files by creating a pattern which must be respected by each file. Store all the information in an electronic archive and also create archives in physical form. Keep track of all the files which for a period of 5 years. After this period the physical documents can be destroyed. Furthermore each computer must be equipped with technical programs for identifying the products, technical Romanian-English dictionaries, and catalogs of the vehicles.

The management system can be improved by initiating the use of methods and techniques of modern management. For example Management by Objectives, Strategic Issue Management, organizing monthly meetings, working in teams, decision making models.

5. Global strategy and departmental strategies

Alpha SRL has a simple organizational structure but due to the constant growth witnessed in the last 2 years, the implementation of a divisional structure is required.

The strategies which will be elaborated must focus on different aspects of the structure of the company. Three new departments must be created. One should concentrate on the *Marketing and Research and Development activity*, along with logistics. Another one should focus on *Financial* activity and the last should deal with *Human Resources*. For each of the 3 new created departments specific strategies must be developed and implemented. In the same time a global strategy must stimulate and coordinate the activity of the company. The main focus should be set on a low cost strategy and aid must be received from the introduction of management information systems which can facilitate the operations of the company.

5.1. Financial strategy based on the financial analysis

In the last years the *average collection period* was reduced from 201 days to 126 days and also to the days inventory held was reduced 111 days to 62 days. The results of the year 2004 are inconclusive for this analyze. In the same time the **days payable outstanding** has decreased. This is an effect of two major causes. The first is that the company has created stable business relationships with its partners and has obtained better payment conditions, for example payment at 30 days and also the company has started to pay in time most of its debts. While year 2006 presents better ratios for the collection period and days inventory held, year 2007 brings some increases in the average collection period caused by the appearance of some new clients. This being the same reason for the increase in days inventory held.

The leverage ratios are calculated in order to get an idea of the company's methods of financing or to measure its ability to meet financial obligations. We can observe in the *equity multiplier* that the value of Total Assets has increased constantly based on increases in equity and not in debt. The decrease in financial leverage represents a good sign for the company. The same graphic indicates a decrease in *the debt payout ratio* as a result of an increase of the net profit. A positive evolution has also the *debt to equity ratio*. The ratio has reached in 2007 a value of 0.59. Many analysts believe that a proper value for this ratio should be under 0.35. The company must reach this value in order to be flexible and healthy capitalized.

The *net profit ratio*, *return on assets* and *return on equity* have the same fluctuation in the last 4 years. The ratios present an increase in the last years. The only exception is present in 2005 when the level of profit was very low. Also a better situation can be observed for the year 2006 for the Return on Equity.

By analyzing the dynamic of indicators like turnover or net profit in the last years the conclusion can be drawn that the company exhibits an exponential growth.

The *turnover* has increased from a value of approximately 20.000 EUR in 2004 to approximately 1.000.000 EUR in 2007. The *net profit* also presents an overwhelming evolution, starting with a value of approximately 5000 EUR in 2004 and ending with a value of around 250.000 EUR. Similar increases can be observed in *total assets* and in the level of *equity and liability*.

All this financial information presents a constant growth in the evolution of **Alpha SRL**. In order to sustain this positive evolution changes must occur in the organization of the company and a management system must be implemented. Most of the net profit must be reinvested in the company in order to create the environment for a proper implementation of changes inside the company. Also some negative aspects can be noticed. Most of the turnover is a result of the business relationship with one client, the National Railway Company. Loosing this client can have a critical effect on the activity of the company. Also the leverage ratios indicate an optimization of the high levels of financial leverage present in the last years. This optimization can be the base for obtaining some short term loans from commercial banks in order to sustain the development of some projects with higher profit margins. These loans must be carefully concluded and their value should not make the value of the assets financed through debt bigger than the value of the assets financed through equity. The average collection period might be improved by increasing the number of projects developed with clients who offer better payment conditions. In any case the preset value of the average collection period is not a big one, taking into consideration the fact that the company acts like a house of commerce and its main advantage in attracting the supplier is the possibility to offer them better payment conditions than the final clients. The days inventory held should also be optimized through a better administration of inventories, but considering the low cost strategy of the company and the harsh conditions regarding the delivery graphic imposed by the clients this can be hard to achieve. Probably in order to sustain the activity of the company the days inventory held will increase in the next years.

The information offered by the balance sheet and the profit and loss account, offer the guideline for a forecast for the year 2008. The company should grow in the same manner as in the last years. The increase in turnover should be with around **20%** from the last year, as an effect of the constant observance process over the environment and the entering on new adjacent markets. The *profit margin* should reach a value between **25% and 30%** due to the involvement in projects which allow bigger profits. *Operational expenses* will increase, due to increases in the number of employees and also increases derived from the accordance of rewards and bonuses for

attracting new suppliers or clients, or developing new products which the company can sell on the market. The rewards for the employees will represent a 5% of the net profit of a certain project for all the employees which were involved in that project according to their contribution. Also additional expenses will be incurred from the training of the actual employees. The acquisition of new software systems and the training of the employees regarding the use of these systems will represent an important additional expense. All these investments will have offer the company a better chance in approaching the market in a more effective way and will increase turnover and profit in the next years.

5.2. Marketing and Research and Development Strategies

A more intense focus must be redirected towards the marketing activity. The first step is to initiate a branding process which should create the image of a reliable partner. This should be done in the first phase by building a logo for the company. Also a slogan must be invented „Alpha SRL, The Business That You Need”. These two elements must appear on a presentation website for the company: „www.companyx.ro“. The site must be simple and must contain essential information regarding the history of the company, the type of products which are traded and some information regarding the loyal partners of the company. The branding activity can involve also creation of promotional materials like: pens, lighters, cards, agendas with the name and the logo of the company, which can be offered as gifts on special occasions. Also the vehicles which are used by the members of the company must include elements of identification of the company: the name, the logo, and a contact number. All the addresses sent by the company must have a certain format and include the identification elements.

The next step consists in establishing which products are worthy of commercialize. The research and development team must be able to identify new products, clients and suppliers. Long term relationships must be developed with the suppliers and exclusivity for the Romanian market or at least preferential prices must be obtained on the purchased products. The company must clearly know what customers to target and where to orient its research and development activity. Considering the fact that the company has only one major client, it should allocate its resources towards the process of attracting new customers or towards intensifying its efforts with it s minor clients, from the turnover point of view.

Furthermore a better analyze of the pricing process must be done and a pricing strategy must be developed. When computing the final price offers which the company issues, some clear elements must be taken into consideration. The exchange risk, the cost for transport, eventual penalties for late delivery, bank commissions and other extraordinary expenses, maybe even telephone bills, faxes or express delivery services, rewards for the employees which had a significant contribution in the success of the project, the trustworthiness of the client and his accuracy in paying the issued

invoices. The expenses must be kept under observance along with the real profit which is generated at the end of the project, and the best way to do this is by creating „charts of profit”. In this case cost accounting becomes essential. The pricing strategy must be correlated with the low cost strategy. The research and development is also responsible for identifying projects where the level of profits obtained can be higher. Based on the research of the team the company must know when it has to participate at tenders with small margins or where it can use larger ones.

5.3. Human Resource Strategies

Human Resource Management refers to all the activities which are designed to attract, develop and organize the human potential inside an organization.

The growth of the company set the parameters for a constant increase in the number of employees. In the process of hiring new employees, the qualitative aspect was neglected. A focus was set on quantity and not on the skills and competences necessary for new created positions. The structure of the personnel from the socio professional point of view is unfavorable. There is a need for people with high economic studies, which can lead the new created departments and help in the process of developing a strategy for the future.

HR activities inside **Alpha SRL** must suffer a sustainable transformation process. The development of the company must be sustained by a clear HR strategy. The main objectives of this department **should be to find talented people who can successfully fulfill the job requirements, to create a motivating environment in which the skills of the employees will be developed and in the same time create a bigger rate of retention** inside the company.

A well determined strategy must be stated and implemented inside the company. This strategy should focus on several criteria:

Firstly, the *selection* of the employees must be better organized. Along the last years the firm encountered difficulties in finding the right employees. The constant growth of the company led to a demand for new employees. The top management was aware of the existent need of hiring new people but the reasons for which new people were supposed to be hired were not clear. The general idea was to employ additional workforce in order to deal with the higher workload.

The recruiting process itself can be characterized by inefficiency. The main method used for recruitment is „the word of mouth”. People are hired based on recommendations coming from acquaintances of the general manager. Furthermore the pool of applicants is limited. The options are limited and the results proved to be in some cases undesired.

Many times the new employees found themselves in the situation to lack the skills and competences needed to perform their tasks. More than this their duties were not clearly stated from the beginning.

New methods of recruiting are necessary. On a short term basis the company should start using the services of specialized websites and recruiting companies. They can prove to be rich sources of potential talents. Even if these methods will involve also additional expenses their benefits are worth it. By using these techniques the firm will be able to benefit from a large pool of applicants from which they can choose the most suitable ones for the current positions which need to be fulfilled.

Along with the use of these methods, the company must define better the positions which need to be filled in. The structure of the organization must be changed and in the same time new positions must be created. These new positions must combine tasks and responsibilities which can sustain growth. For example positions like Sales Manager, Financial Manager or HR Manager must be created. In order to create a more dynamic environment, which can motivate the employees in performing their duties, the processes in the company must be decentralized one step at a time. For the beginning the main decisions must be taken by the top management and repetitive decisions must be taken by the other members of the organization. More authority should be delegated from the general manager towards the middle managers and other employees.

Job description and job specifications must be designed for all the positions and specific tasks should be mentioned. Each employee must be aware of his responsibilities. The jobs must be redesigned and include specific work tasks for each of the employees. Answers must be offered inside the firm regarding how the jobs should be performed, by whom and in what conditions. Also the top management must encourage the work in teams and even job rotation. The job scope, the number of different tasks performed by the employees, must be broad. Learning is encouraged in this way and boredom and disinterest is avoided.

The rotating of work assignments can be beneficial for the members of the firm. As long as team work is encouraged, job rotation is natural. Other means of achieving a more motivating environment is the use of job enlargement and job enrichment. The employees must be able to perform more different operations and in the same time must benefit from a bigger degree of responsibility inside the organization. (Decenza and Robbins, 2002)

The *performance appraisal* process involves first of all establishing relevant aspects of performance. Secondly the performance must be appraised and feedback must be offered to the subjects. The last step involves solving the problems and offering rewards.

The best solution for a small company is to make an assessment based on measuring results. Each department must have clear and realist objectives and each employee must contribute to the organization overall goal. These goals become the standards for evaluating each employee's performance.

Another stringent problem present in the last years is the retention rate among the new employees. The main reason for this problem is the lack of a rewarding system closely linked with the performance of each employee. Secondary factors are

the great amount of work which has to be handled by the employees materialized in working after program hours, and even the stress which is a result of the necessity to solve problems in a limited amount of time. All these problems must be confronted. The main solutions are offering bigger salaries and rewards for the accomplishment of some of the company's short term objectives, restructuring the organization and reorganizing it from the management point of view with the purpose to use time more efficiently and hiring new people.

6. Organizational Structure and Culture

The *structure of the organization* is a simple one, and it is composed out of the General Manager, who is entitled to take all the important decisions concerning the interests of the company and the other employees. The management positions are not well defined. The absence of job description charts increases the ambiguity. The positions should assure the proper correlation between tasks, competencies and responsibilities. The absence of the well defined individual objectives creates confusion and barriers in the process of solving the issues which the company confronts with. The organization is flat and the decision power stands in the hands of the general manager which delegates it seldom. The activity of the company is highly centralized.

The company must be restructured and 3 new departments must be created. The current number of employees must be increased in order to fill in the positions created in the new departments. Each department will have a manager and a small number of subordinates. In addition it is necessary to improve the professional level of the actual employees by using training programs. The young employees must benefit from management courses. The elder ones must learn to communicate in English and must learn how to operate a computer. The focus should be set on the use of the internet, due to the fact that the internet can be one of the main sources of attracting new customers and suppliers.

The *organizational culture* of the company must be changed towards one where fairness and business ethics are dominant. The company should focus on trading spare parts of high quality and must eliminate the business relationships with the suppliers which offer low quality goods. Even if this action can involve bigger costs for the company on a short term, on a long run it will represent a benefit for the company. The old employees will be resistant to the new changes, but they must understand the importance of these changes and they must respect and apply them. By orienting the activity of the company towards decentralization of power, the employees will be more involved in the evolution of the company and will adapt easily to the changes. The first thing which will have to change is the attitude of the leader. His performance must offer models for the others.

7. Comments and Conclusions

The point of view of the top management was registered in order to sustain the proper identification of possible issues that the company encounters in its activity and to offer viable solutions for them. The method used consisted in conducting an interview with the General Manager of the company. The interview is comprised out of 15 questions and has multiple aims. The first is to identify the problems or opportunities present in the company today and to offer solutions regarding their exploitation. The second is to establish what strategies are compulsory for the future evolution of the company and how can this be implemented. And the third aim is to discover the current conception of the top management concerning the power of elements like the use of management information systems, the organizational culture or the level of centralization in sustaining growth.

The first conclusion of the interview confirms one of the premises from which this project started and that is the indifference exhibited by some managers towards the importance of management theories.

The manager identifies correctly that the growth of the company is owed to the hard work of the employees which represent the most useful asset of the company, but he fails to see the low retention rate, and other elements like recruiting, training, performance appraisal or rewarding employees. He is convinced that if hard work was the key to success until now, it will continue to be in the future. The need for employees with a high education is observed, but there is no concern over the structure of the company, the job descriptions or the new positions which have to be created in order to sustain the growth. The leader of the company clearly recognizes the fact that a long term profits are of greater importance than immediate gratification and also he is aware that the market is stabilizing and the big profits are harder and harder to obtain. He also identifies the need of the company to open new offices in other cities and the opportunity which is offered by being the only representative of a foreign company in Romania.

When approaching the subject of improvements needed inside the company, none are identified. Among the issues which are not identified the most important ones are: the bad management of time, the involvement of the company in projects which bring no profit, the presence of a client which covers 75% of the turnover, the current mistakes that are done, the inexistence of a management information system, the lack of an efficient system to monitor the external environment, the lack of foreign language speakers and the lack of computer skills for more than half of the employees. Discussing about strategy, an objective is suggested: to expand in more cities and even in foreign countries, but no solutions for reaching this objective are proposed and no timeline as well. The identification of new selling opportunities is left in the hands of „friends”. The marketing field is also ignored and the benefits which it can bring are treated with indifference. The financial strategy proposed by the manager is one that the company needs, but it is hard to achieve especially when the field of activity of the

company is commerce. In commerce, clients turn to intermediaries, and suppliers prefer intermediaries because they sustain financially the business. It is very hard and even impossible for Alpha SRL to work on the money of its partners.

The interview also reveals the opinion of the manager regarding the level of centralization. Centralization of power in the hands of the leader, in the situation when the number of projects is constantly increasing and the programmed decisions are encountered at a daily basis, is not indicated. More authority should be offered to the employees.

The professional manager must use during his activity precise methods, techniques, principles and models offered by the management science. Only in this way the organization can achieve and sustain remarkable performances in an environment where the competition is constantly increasing. (Istocescu, 2005)

This paper firstly identifies the problems which are present in many small companies which benefit from an exponential growth in a small period of time. The lack of a system of management which should govern the activity of the company or the lack of a strategy for the company, improper use and manipulation of the resources of the company, especially the human resources are a few attributes which characterize many companies which found themselves in this situation. The main stringent problem which the project addresses is the lack of a strategic management model. The today's manager must be aware of the importance of designing an implementing such a model inside a company. Although impressive results can be achieved by having intuition or by hard work, these can not be sustained over time in the absence of a clear strategy. The inexperienced manager must learn to use management theories and must understand that the key to success in the business environment is obtaining a sustainable competitive advantage over the competitors and constantly creating more value at lower costs. The dynamic environment which characterizes the business world, make it impossible to survive on the market unless you think strategy. If the problems can be correctly identified, the management science can offer a multitude of viable solutions. Improvement must be the word present on the lips of top managers. This project is responsible for offering certain courses of action, which can prove to be useful for most of the small companies. The starting point is a strategic management model, whose implementation can bring solutions like restructuring, setting real, achievable objectives, branding, allocating resources in the best way, gaining market share by a low cost strategy, scanning the environment and responding in a proper way to it's dynamic.

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